

**NORTH RED DEER RIVER WATER SERVICES COMMISSION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2012**

Draft for discussion purposes only

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>		
Cash (bank indebtedness)	1,492,139	(27,864)
Trade and other receivables	961,781	667,046
Due from related party	379,241	1,551,986
	<u>2,833,161</u>	<u>2,191,168</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	321,204	358,382
Current portion of long-term debt (Note 4)	563,737	539,151
	<u>884,941</u>	<u>897,533</u>
Long-term debt, net of current portion (Note 4)	15,347,301	15,911,038
	<u>16,232,242</u>	<u>16,808,571</u>
<b>Net debt</b>	<b>(13,399,081)</b>	<b>(14,617,403)</b>
<b>Non-financial assets</b>		
Tangible capital assets (Note 7)	33,593,464	34,059,074
Inventory of supplies (Note 6)	63,413	56,647
<b>Accumulated surplus (Note 9)</b>	<u>20,257,796</u>	<u>19,498,318</u>

Approved on Behalf of the Commission

\_\_\_\_\_ Chairperson

\_\_\_\_\_ Administrator

The accompanying notes are an integral part of these financial statements

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>REVENUE</b>	Budget \$	2012 \$	2011 \$
Water sales to commission members (Note 10)	5,000,117	<b>4,890,880</b>	4,448,027
Service fees charged to commission members (Note 10)	134,000	<b>134,177</b>	131,432
Investment income (Note 12)	9,250	<b>16,662</b>	14,172
Other revenue	-	<b>5,914</b>	38
	<u>5,143,367</u>	<u><b>5,047,633</b></u>	<u>4,593,669</u>
<b>OPERATING EXPENSES</b>			
Accounting and audit fees	8,750	<b>8,750</b>	14,788
Board remuneration	4,750	<b>3,700</b>	4,800
Board travel	2,500	<b>372</b>	446
Communication	9,120	<b>8,653</b>	8,327
General materials and supplies	2,195	<b>589</b>	537
Insurance	5,500	<b>4,331</b>	4,350
Interest on long-term debt (Note 12)	735,750	<b>729,322</b>	757,651
Legal	1,000	<b>125</b>	400
Management fees	46,500	<b>44,730</b>	42,260
Office	250		78
Operator costs	100,000	<b>83,546</b>	82,664
Other expenses		<b>279</b>	830
Other professional fees	10,458	<b>12,958</b>	6,468
Purchase of water	3,018,246	<b>2,907,659</b>	2,710,912
Repairs and maintenance	23,700	<b>5,374</b>	12,542
SCADA maintenance	11,500	<b>10,764</b>	10,764
Utilities	5,000	<b>4,246</b>	3,975
Valves	45,000	<b>(2,851)</b>	342
Amortization of capital assets	465,610	<b>465,610</b>	465,610
	<u>4,495,829</u>	<u><b>4,288,155</b></u>	<u>4,127,744</u>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<u>647,538</u>	<u><b>759,478</b></u>	<u>465,925</u>
<b>ACCUMULATED SURPLUS</b> , beginning of year	<u>19,498,318</u>	<u><b>19,498,318</b></u>	<u>19,032,393</u>
<b>ACCUMULATED SURPLUS</b> , end of year	<u><u>20,145,856</u></u>	<u><u><b>20,257,796</b></u></u>	<u><u>19,498,318</u></u>

The accompanying notes are an integral part of these financial statements

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budget \$	2012 \$	2011 \$
Excess of revenue over expenses	647,538	<b>759,478</b>	465,925
Amortization of tangible capital assets	465,610	<b>465,610</b>	465,610
Inventory of Supplies	<u>                    </u>	<b><u>(6,766)</u></b>	<u>(36,070)</u>
Net change in net debt	1,113,148	<b>1,218,322</b>	895,465
Net debt, beginning of year	(14,617,403)	<b>(14,617,403)</b>	(15,512,868)
Net debt, end of year	<u><u>(13,504,255)</u></u>	<b><u><u>(13,399,081)</u></u></b>	<u><u>(14,617,403)</u></u>

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**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>2012</b>	2011
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of revenues over expenses	<b>759,478</b>	465,925
Items which do not affect cash:		
Amortization of capital assets	<b>465,610</b>	465,610
Net change in non-cash working capital balances:		
Decrease (increase) in trade and other receivables	<b>878,010</b>	(1,428,244)
(Increase) in inventory of supplies	<b>(6,766)</b>	(36,070)
Increase (decrease) in accounts payable and accrued liabilities	<b>(37,178)</b>	(10,122)
	<b>2,059,154</b>	(542,901)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of capital assets	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of debenture debt	<b>(539,151)</b>	(515,637)
<b>CHANGE IN CASH AND EQUIVALENTS DURING THE YEAR</b>	<b>1,520,003</b>	(1,058,538)
<b>CASH POSITION AT BEGINNING OF YEAR</b>	<b>(27,864)</b>	1,030,674
<b>CASH POSITION AT END OF YEAR</b>	<b>1,492,139</b>	(27,864)

The accompanying notes are an integral part of these financial statements

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

- a) **Management's Responsibility for the Financial Statements** - The financial statements of the North Red Deer River Water Services Commission (the "Commission") are the responsibility of management. They have been prepared in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board. The Commission is constituted under the Municipal Government Act and was approved by the Minister of Municipal Affairs on June 8, 2004, for the purpose of constructing, maintaining, controlling, and managing a regional water system. The members of the Commission are the City of Lacombe, Lacombe County, Ponoka County, Town of Blackfalds, and the Town of Ponoka.
- b) **Budget Amounts** - The operating budget amounts presented on the Statement of Operations are taken from the Commission's annual budget. The Commission did not approve a formal capital budget for 2012
- c) **Revenue Recognition** - The financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting records revenue as it is earned and measurable. Government transfers are received from third parties pursuant to agreement and may only be used for the completion of specific work or for the purchase of tangible capital assets. Revenue is recognized in the period when the related expenses are incurred, or the tangible capital assets are acquired.
- d) **Inventory of Supplies** - Inventories of materials and supplies for consumption are valued at the lower of cost or replacement cost.
- e) **Tangible Capital Assets** - Tangible capital assets are recorded at cost less accumulated amortization. Cost includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Contributed tangible capital assets are recorded at fair value at the date of contribution and are also recorded as revenue.

The cost, less residual value, of the tangible capital assets are amortized on a straight-line basis over the estimated useful life commencing once the asset is available for productive use as follows:

	YEARS
Buildings	25 - 50
Engineering Structures	
Water system	45 - 75
Machinery, equipment, and furnishings	5 - 30
Vehicles	10 - 25

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal. Assets under construction are not amortized until the asset is available for productive use.

- f) **Use of Estimates** - The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**2. FINANCIAL INSTRUMENTS**

The Commission utilizes various financial instruments. It is management's opinion that the Commission is not exposed to significant interest or currency risks arising from these financial instruments.

The carrying value of these financial instruments approximates their fair value.

**3. BANK OVERDRAFT**

Bank overdraft is comprised of an overdraft protection agreement with a maximum overdraft of \$1 million and interest charged at lender prime less .25%. Collateral is comprised of a general security agreement specifically pledging all grant proceeds and debenture proceeds.

**4. LONG-TERM DEBT**

	<u>2012</u>	<u>2011</u>
	<u>\$</u>	<u>\$</u>
4.46% debenture, repayable \$66,762 semi-annually, due September 15, 2031	<b>1,698,885</b>	1,754,763
4.515% debenture, repayable \$570,688 semi-annually, due June 15, 2031	<b>14,212,153</b>	14,695,426
	<b>15,911,038</b>	16,450,189
Less current portion	<b>563,737</b>	539,151
Long-term portion	<b>15,347,301</b>	15,911,038

Principal and interest repayments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
2013	563,737	711,165	1,274,902
2014	589,444	685,458	1,274,902
2015	616,323	658,578	1,274,901
2016	644,428	630,473	1,274,901
2017	673,815	601,085	1,274,900
Subsequent	12,823,291	4,454,636	17,277,927
	<b>15,911,038</b>	<b>7,741,395</b>	<b>23,652,433</b>

Debenture debt is issued on the credit of the Commission at large. The Commission has agreed to levy upon the member municipalities, a cubic meter water service fee based on actual use sufficient to provide for annual funds to pay principal and interest due each year on debentures and annual operating costs.

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**5. DEBT LIMIT**

Section 3 of Alberta Regulation No. 76/2000 requires that debt and debt limits for the Commission to be disclosed. The Commission has received approval to borrow up to \$27 million under ministerial orders L:043/05 (\$22,000,000) and L:148/05 (\$5,000,000) to complete the project and as such, has not exceeded its debt limit at December 31, 2012. The debt limit and debt service limit otherwise determined are as follows:

	<u>2012</u>	<u>2011</u>
	\$	\$
Total debt limit	<b>10,095,267</b>	9,187,338
Total debt	<b>(15,911,038)</b>	(16,450,189)
Amount of debt limit exceeded	<b>(5,815,771)</b>	(7,262,851)
Debt servicing limit	<b>1,766,672</b>	1,607,784
Debt servicing	<b>(1,274,901)</b>	(1,274,901)
Amount of debt servicing unused	<b>491,771</b>	332,883

The debt limit is calculated at two times the revenue of the Commission (as defined in Alberta Regulation No. 76/2000) and the debt service limit is calculated at 0.35 times such revenue. Incurring debt beyond these limitations requires approval by the Minister of Municipal Affairs. These thresholds are guidelines used by Alberta Municipal Affairs to identify Commissions that could be at financial risk if further debt is acquired. The calculation alone does not represent the financial stability of the Commission. Rather, the financial statements must be interpreted as a whole.

**6. INVENTORIES OF SUPPLIES**

	<u>2012</u>	<u>2011</u>
	\$	\$
Valves	<b>38,921</b>	36,070
Material and Supplies	<b>8,660</b>	8,660
Pipe	<b>8,513</b>	8,513
Couplings	<b>2,707</b>	2,707
Miscellaneous	<b>4,612</b>	701
	<b>63,413</b>	56,651



**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**7. TANGIBLE CAPITAL ASSETS**

			<b>2012</b>
	Land	Engineered Structures	<b>Total</b>
Cost, beginning of year	1,821,692	34,776,820	<b>36,598,512</b>
Additions	-	-	-
Cost, end of year	1,821,692	34,776,820	<b>36,598,512</b>
Accumulated amortization, beginning of year	-	2,539,438	<b>2,539,438</b>
Amortization	-	465,610	<b>465,610</b>
Accumulated amortization, end of year	-	3,005,048	<b>3,005,048</b>
Net carrying amount, end of year	<u>1,821,692</u>	<u>31,771,772</u>	<b><u>33,593,464</u></b>
			<b>2011</b>
	Land	Engineered Structures	<b>Total</b>
Cost, beginning of year	1,821,692	34,776,820	36,598,512
Additions	-	-	-
Cost, end of year	1,821,692	34,776,820	36,598,512
Accumulated amortization, beginning of year	-	2,073,828	2,073,828
Amortization	-	465,610	465,610
Accumulated amortization, end of year	-	2,539,438	2,539,438
Net carrying amount, end of year	<u>1,821,692</u>	<u>32,237,382</u>	<b><u>34,059,074</u></b>

**8. EQUITY IN TANGIBLE CAPITAL ASSETS**

Net assets invested in capital assets is calculated as follows:

	<b>2012</b>	2011
	<b>\$</b>	<b>\$</b>
Capital assets	<b>33,593,464</b>	34,059,074
Long-term debt	<b>(15,911,038)</b>	(16,450,189)
	<b><u>17,682,426</u></b>	<b><u>17,608,885</u></b>

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**9. ACCUMULATED SURPLUS**

	2012 \$	2011 \$
Unrestricted operating surplus	1,577,800	891,863
Unrestricted capital surplus	233,104	233,104
General operating reserve	486,517	486,517
Capital reserve	277,949	277,949
Equity in tangible capital assets	17,682,426	17,608,885
	<b>20,257,796</b>	<b>19,498,318</b>

The capital reserve is used to provide funds for specific capital equipment purchases to enhance or improve service delivery. Appropriations to the capital and operating reserves from unrestricted net assets are approved by the Board on an annual basis and made in accordance with the Commission Board's Capital and Operating Reserve Policy.

**10. RELATED PARTY TRANSACTIONS**

City of Lacombe, Town of Blackfalds, Town of Ponoka, Lacombe County, and Ponoka County are members of the Commission and, as such, have been identified as related parties.

i) Water sales charged to Commission members are as follows:

	2012 \$	2011 \$
City of Lacombe	2,368,963	2,150,684
Town of Ponoka	1,390,579	1,308,712
Town of Blackfalds	1,122,055	981,926
Ponoka County	9,283	6,705
	<b>4,890,880</b>	<b>4,448,027</b>

ii) Service fees are based on the actual net operating costs of the Commission and are allocated among various Commission members based on earlier agreement. Service fees charged to Commission members are as follows:

	2012 \$	2011 \$
Lacombe County	67,088	65,716
Ponoka County	67,088	65,716
	<b>134,177</b>	<b>131,432</b>

iii) The Commission is provided accounting, management, and operations services by the City of Lacombe for a total cost of \$83,546 (2011 - \$88,826) to the Commission.

Included in accounts receivable and due from related parties are \$1,332,836 (2011 - \$2,215,050) due from various member municipalities.

**NORTH RED DEER RIVER WATER SERVICES COMMISSION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2012**

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**11. SIGNIFICANT AGREEMENTS**

- i) The Commission has entered into a 25 year agreement with the City of Red Deer, expiring August 31, 2030, to purchase water. The agreement may be terminated by either party by giving five year's written notice. Under the agreement, the Commission is obligated to purchase an annual quantity of water to be determined by negotiation between the parties at a rate calculated on a cost of service basis utilizing the principles set out in the American Water Works Association manuals of practice dealing with water rates and charges.
- ii) The Commission has entered into agreements with the City of Lacombe, Town of Ponoka, Town of Blackfalds, and Ponoka County to supply water. Under the agreement, the Commission is obligated to provide a maximum allocation of water to each municipality for a price determined annually by October 31st of the prior year.

**12. SUPPLEMENTARY CASH FLOW INFORMATION**

	<u>2012</u>	<u>2011</u>
	\$	\$
Interest earned	<u>16,662</u>	<u>14,172</u>
Interest paid	<u>729,322</u>	<u>757,651</u>

**13. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved by the Commission Board and Administration.